

INSIGHT ENTERPRISES INC

Form 10-Q

November 07, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended: September 30, 2008**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission File Number: 0-25092**  
**INSIGHT ENTERPRISES, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware** **86-0766246**  
(State or other jurisdiction of (I.R.S. Employer Identification Number)  
incorporation or organization)  
**1305 West Auto Drive, Tempe, Arizona 85284**  
(Address of principal executive offices) (Zip Code)  
**(480) 902-1001**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of shares outstanding of the issuer's common stock as of November 3, 2008 was 45,584,578.

**INSIGHT ENTERPRISES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**Three Months Ended September 30, 2008**  
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**INSIGHT ENTERPRISES, INC.  
FORWARD-LOOKING INFORMATION**

Certain statements in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: projections of matters that affect net sales, gross profit, operating expenses, earnings or losses from continuing operations, non-operating income and expenses, net earnings or losses or cash flows, the recoverability of deferred tax assets, the payment of accrued expenses and liabilities and costs or gains that may result from post-closing adjustments pertaining to business acquisitions or dispositions; effects of acquisitions or dispositions and our intentions about additional acquisitions; projections of capital expenditures; our effective tax rate and earnings or losses per share in 2008; hiring plans; plans for future operations; the availability of financing and our needs or plans relating thereto; plans relating to our products and services; the effect of new accounting principles or changes in accounting policies; the effect of guaranty and indemnification obligations and off balance sheet arrangements; the outcome of ongoing tax audits and litigation; statements related to accounting estimates, including estimated stock option and other equity award forfeitures, and deferred compensation cost amortization periods; statements of belief; and statements of assumptions underlying any of the foregoing. Forward-looking statements are identified by such words as believe, anticipate, expect, estimate, intend, plan, project, will, may and words and similar expressions, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. There can be no assurances that the events discussed in the forward-looking statements will occur, and actual results could differ materially from those suggested by the forward-looking statements. Some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements include, but are not limited to, the following:

changes in the information technology industry and/or the economic environment;

our reliance on partners for product availability, marketing funds, purchasing incentives and competitive products to sell;

disruptions in our information technology systems and voice and data networks, including our system upgrade and the migration of acquired businesses to our information technology systems and voice and data networks;

the integration and operation of acquired businesses, including our ability to achieve expected benefits of the acquisitions;

actions of our competitors, including manufacturers and publishers of products we sell;

the risks associated with international operations;

seasonal changes in demand for sales of software licenses;

increased debt and interest expense and lower availability on our financing facilities and changes in the overall capital markets that could increase our borrowing costs or reduce future availability of financing;

exposure to currency exchange risks and volatility in the U.S. dollar exchange rate;

our dependence on key personnel;

risk that purchased goodwill or intangible assets become impaired;

failure to comply with the terms and conditions of our public sector contracts;

rapid changes in product standards; and

intellectual property infringement claims and challenges to our registered trademarks and trade names.

Additionally, there may be other risks that are otherwise described from time to time in the reports that we file with the SEC. Any forward-looking statements in this report should be considered in light of various important factors, including the risks and uncertainties listed above, as well as others. We assume no obligation to update, and do not intend to update, any forward-looking statements. We do not endorse any projections regarding future performance that may be made by third parties.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share data)  
(unaudited)

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,451	\$ 56,718
Accounts receivable, net of allowances for doubtful accounts of \$21,070 and \$22,831, respectively	892,910	1,072,612
Inventories	89,374	98,863
Inventories not available for sale	18,411	21,450
Deferred income taxes	23,344	22,020
Other current assets	28,166	38,916
Total current assets	1,124,656	1,310,579
Property and equipment, net of accumulated depreciation of \$127,599 and \$107,577, respectively	165,883	158,467
Goodwill	86,760	306,742
Intangible assets, net of accumulated amortization of \$23,209 and \$12,262, respectively	100,123	80,922
Deferred income taxes	109,825	392
Other assets	18,346	10,076
	\$ 1,605,593	\$ 1,867,178
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 517,185	\$ 685,578
Accrued expenses and other current liabilities	113,393	113,891
Current portion of long-term debt	168,374	15,000
Deferred revenue	25,652	42,885
Total current liabilities	824,604	857,354
Long-term debt	162,653	187,250
Deferred income taxes	29,807	27,305
Other liabilities	24,988	20,075
	1,042,052	1,091,984

Commitments and contingencies (Note 11)

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Stockholders' equity:

Preferred stock, \$0.01 par value, 3,000 shares authorized; no shares issued

Common stock, \$0.01 par value, 100,000 shares authorized; 45,581 shares at

September 30, 2008 and 48,458 shares at December 31, 2007 issued and

outstanding

	456	485
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Additional paid-in capital	368,394	386,139
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Retained earnings	161,501	340,641
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Accumulated other comprehensive income - foreign currency translation adjustments	33,190	47,929
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Total stockholders' equity	563,541	775,194
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	\$ 1,605,593	\$ 1,867,178
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See accompanying notes to consolidated financial statements.



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**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 1,168,916	\$ 1,109,705	\$ 3,674,427	\$ 3,517,129
Costs of goods sold	1,014,844	959,859	3,165,458	3,029,295
Gross profit	154,072	149,846	508,969	487,834
Selling and administrative expenses	139,198	130,820	424,061	398,902
Goodwill impairment			313,949	
Severance and restructuring expenses			5,408	2,841
Earnings (loss) from operations	14,874	19,026	(234,449)	86,091
Non-operating (income) expense:				
Interest income	(440)	(432)	(1,741)	(1,486)
Interest expense	3,085	2,860	9,749	10,146
Net foreign currency exchange loss (gain)	3,307	849	3,425	(2,807)
Other expense, net	297	428	787	1,141
Earnings (loss) from continuing operations before income taxes	8,625	15,321	(246,669)	79,097
Income tax expense (benefit)	1,912	6,225	(89,625)	30,896
Net earnings (loss) from continuing operations	6,713	9,096	(157,044)	48,201
Net earnings from a discontinued operation				4,972
Net earnings (loss)	\$ 6,713	\$ 9,096	\$ (157,044)	\$ 53,173
Net earnings (loss) per share Basic:				
Net earnings (loss) from continuing operations	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 0.98
Net earnings from a discontinued operation				0.10
Net earnings (loss) per share	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 1.08
Net earnings (loss) per share Diluted:				
Net earnings (loss) from continuing operations	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 0.97
Net earnings from a discontinued operation				0.10
Net earnings (loss) per share	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 1.07

Shares used in per share calculations:

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Basic	45,569	49,530	46,901	49,213
Diluted	45,719	50,711	46,901	49,801

See accompanying notes to consolidated financial statements.

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**INSIGHT ENTERPRISES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net (loss) earnings from continuing operations	\$ (157,044)	\$ 48,201
Plus: net earnings from a discontinued operation		4,972
Net (loss) earnings	(157,044)	53,173
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Goodwill impairment	313,949	
Depreciation and amortization	30,287	25,960
Provision for losses on accounts receivable	2,185	1,725
Write-downs of inventories	5,829	5,744
Non-cash stock-based compensation	7,556	8,927
Gain on sale of a discontinued operation		(7,937)
Excess tax benefit from employee gains on stock-based compensation	(108)	(445)
Deferred income taxes	(108,593)	2,355
Changes in assets and liabilities:		
Decrease in accounts receivable	201,010	186,033
Decrease (increase) in inventories	6,294	(2,509)
Decrease in other current assets	18,300	12,704
Decrease (increase) in other assets	2,877	(1,944)
Decrease in accounts payable	(253,561)	(142,794)
Decrease in deferred revenue	(18,845)	(15,175)
Increase (decrease) in accrued expenses and other liabilities	11,985	(26,788)
Net cash provided by operating activities	62,121	99,029
Cash flows from investing activities:		
Acquisition of Calence, net of cash acquired	(124,671)	
Acquisition of MINX, net of cash acquired	(957)	
Proceeds from sale of a discontinued operation, net of direct expenses	(900)	28,631
Purchases of property and equipment	(23,994)	(27,611)
Net cash (used in) provided by investing activities	(150,522)	1,020
Cash flows from financing activities:		
Borrowings on senior revolving credit facility	712,089	
Repayments on senior revolving credit facility	(549,176)	
Borrowings on accounts receivable securitization financing facility	466,874	540,000
Repayments on accounts receivable securitization financing facility	(444,500)	(601,000)
Repayments on term loan	(56,250)	(11,250)
Net borrowings under inventory financing facility	18,213	
Net repayments on short-term line of credit		(15,000)

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Repayments on assumed debt	(10,978)	
Deferred financing fees	(3,355)	
Proceeds from sales of common stock under employee stock plans	5,031	24,342
Excess tax benefit from employee gains on stock-based compensation	108	445
Payment of payroll taxes on stock-based compensation through shares withheld	(2,097)	
Repurchases of common stock	(50,000)	(22,336)
Increase (decrease) in book overdrafts	21,633	(23,856)
Net cash provided by (used in) financing activities	107,592	(108,655)
Foreign currency exchange effect on cash flows	(3,458)	6,995
Increase (decrease) in cash and cash equivalents	15,733	(1,611)
Cash and cash equivalents at beginning of period	56,718	54,697
Cash and cash equivalents at end of period	\$ 72,451	\$ 53,086

See accompanying notes to consolidated financial statements.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Basis of Presentation and Recently Issued Accounting Pronouncements**

We are a leading provider of brand-name information technology ( IT ) hardware, software and services to large enterprises, small- to medium-sized businesses ( SMB ) and public sector institutions in North America, Europe, the Middle East, Africa and Asia-Pacific. The Company is organized in the following three operating segments, which are primarily defined by their related geographies:

<b>Operating Segment</b>	<b>Geography</b>
North America	United States and Canada
EMEA	Europe, Middle East and Africa
APAC	Asia-Pacific

Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

On July 10, 2008, we acquired MINX Limited ( MINX ), a United Kingdom-based networking services company with annual net sales of approximately \$25,000,000 for an initial cash purchase price of approximately \$1,500,000 and the assumption of approximately \$3,900,000 of existing debt. Up to an additional \$678,000 may be due if MINX achieves certain performance targets over a one-year period.

On April 1, 2008, we completed the acquisition of Calence, LLC ( Calence ) for a cash purchase price of \$125,000,000 plus a preliminary working capital adjustment of \$4,032,000, offset by a final post-closing working capital adjustment of \$383,000. Up to an additional \$35,000,000 of purchase price consideration may be due if Calence achieves certain performance targets over the next four years. During the three and nine months ended September 30, 2008, we accrued an additional \$1,755,000 and \$2,471,000, respectively, of purchase price consideration as a result of Calence achieving certain performance targets during the respective periods. Such amounts were recorded as additional goodwill (see Note 3). We also assumed Calence's existing debt totaling approximately \$7,300,000, of which \$7,100,000 was repaid by us at closing. The Calence acquisition was funded, in part, using borrowings under our senior revolving credit facility.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2008, our results of operations for the three and nine months ended September 30, 2008 and 2007 and our cash flows for the nine months ended September 30, 2008 and 2007. The consolidated balance sheet as of December 31, 2007 was derived from the audited consolidated balance sheet at such date. The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ( SEC ) and consequently do not include all of the disclosures normally required by United States generally accepted accounting principles ( GAAP ).

The results of operations for such interim periods are not necessarily indicative of results for the full year, due in part to the seasonal nature of the business. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes thereto, in our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Additionally, these estimates and assumptions affect the reported amounts of net sales and expenses during the reported period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to allowances for doubtful accounts, write-downs of inventories, litigation-related obligations, valuation allowances for deferred tax assets and impairment of goodwill, intangible assets and other long-lived assets if indicators of potential impairment exist.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

The consolidated financial statements include the accounts of Insight Enterprises, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. References to the Company, we, us, our and other similar words refer to Insight Enterprises, Inc. and its consolidated subsidiaries unless the context suggests otherwise.

*Recently Issued Accounting Pronouncements*

Other than the partial adoption of Statement of Financial Accounting Standard No. 157 *Fair Value Measurements* ( SFAS No. 157 ) effective January 1, 2008, as discussed in Note 8, there have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007 which affect or may affect our financial statements.

**2. Net Earnings (Loss) from Continuing Operations Per Share ( EPS )**

Basic EPS is computed by dividing net earnings (loss) from continuing operations available to common stockholders by the weighted-average number of common shares outstanding during each quarter. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock awards and restricted stock units. A reconciliation of the denominators of the basic and diluted EPS calculations follows (in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Numerator:				
Net earnings (loss) from continuing operations	\$ 6,713	\$ 9,096	\$ (157,044)	\$ 48,201
Denominator:				
Weighted-average shares used to compute basic EPS	45,569	49,530	46,901	49,213
Dilutive potential common shares due to dilutive options and restricted stock, net of tax effect	150	1,181		588
Weighted-average shares used to compute diluted EPS	45,719	50,711	46,901	49,801
Net earnings (loss) from continuing operations per share:				
Basic	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 0.98
Diluted	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 0.97

No potential common shares were included in the diluted EPS computation for the nine months ended September 30, 2008 because of the net loss from continuing operations in that period, which would result in an antidilutive per share amount. The following weighted-average outstanding stock options were not included in the diluted EPS calculations because the exercise prices of these options were greater than the average market price of our common stock during the respective periods (in thousands):

<b>Three Months Ended</b>	<b>Nine Months Ended</b>
<b>September 30,</b>	<b>September 30,</b>

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	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Weighted-average outstanding stock options excluded from the diluted EPS calculation	2,607	82		1,365



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**3. Impairment***Goodwill*

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Multiple valuation techniques can be used to assess the fair value of the reporting unit. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both. The Company has three reporting units which are the same as our operating segments. At December 31, 2007, our goodwill balance was \$306,742,000 allocated among all three of our operating segments, which represented the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by Insight in connection with previous acquisitions, adjusted for changes in foreign currency exchange rates. We tested goodwill for impairment during the fourth quarter of 2007. At that time, we concluded that the fair value of each of our reporting units was in excess of the carrying value.

On April 1, 2008, we acquired Calence, which has been integrated into our North America business. Under the purchase method of accounting, the purchase price of \$139,639,000 was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired of \$93,709,000 was recorded as goodwill (see Note 13). The primary driver of the acquisition was to enhance our technical capabilities around networking, advanced communications and managed services and to help accelerate our transformation to a broad-based technology solutions advisor and provider. During the three and nine months ended September 30, 2008, we accrued an additional \$1,755,000 and \$2,471,000, respectively, of purchase price consideration (the earnout) as a result of Calence achieving certain performance targets during the respective periods. Such amounts were recorded as additional goodwill. The Calence acquisition and resulting additional goodwill of \$96,180,000, including the earnout amounts, was recorded as part of the North America reporting unit.

In consideration of market conditions and the decline in our overall market capitalization resulting from decreases in the market price of Insight's publicly traded common stock during the three months ended June 30, 2008, we evaluated whether an event (a triggering event) had occurred during the second quarter that would require us to perform an interim period goodwill impairment test in accordance with SFAS No. 142. Subsequent to the first quarter of 2008, the Company experienced a relatively consistent decline in market capitalization due to deteriorating market conditions and a significant decline subsequent to our announcement of preliminary first quarter 2008 results on April 23, 2008. During the first quarter of 2008, the market price of Insight's publicly traded common stock ranged from a high of \$19.00 to a low of \$15.49, ending the quarter at \$17.50 on March 31, 2008. During the second quarter of 2008, the market price of Insight's publicly traded common stock ranged from a high of \$18.20 to a low of \$11.00 on April 24, 2008, when the price dropped by 22.5% and did not return to levels above that single day drop through the end of the quarter. Based on the sustained significant decline in the market price of our common stock during the second quarter of 2008, we concluded that a triggering event had occurred subsequent to March 31, 2008, which would more likely than not reduce the fair value of one or more of our reporting units below its respective carrying value.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

As a result, we performed the first step of the two-step goodwill impairment test in the second quarter of 2008 in accordance with SFAS No. 142 and compared the fair values of our reporting units to their carrying values. The fair values of our reporting units were determined using established valuation techniques, specifically the market and income approaches. We determined that the fair value of the North America reporting unit was less than the carrying value of the net assets of the reporting unit, and thus, we performed step two of the impairment test for the North America reporting unit. The results of the first step of the two-step goodwill impairment test indicated that the fair value of each of our EMEA and APAC reporting units was in excess of the carrying value, and thus, we did not perform step two of the impairment test for EMEA or APAC.

In step two of the impairment test, we determined the implied fair value of the goodwill in our North America reporting unit and compared it to the carrying value of the goodwill. We allocated the fair value of the North America reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the North America reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Our step two analysis resulted in no implied fair value of goodwill for the North America reporting unit, and therefore, we recognized a non-cash goodwill impairment charge of \$313,949,000, \$201,167,000 net of taxes, which represented the entire goodwill balance recorded in our North America operating segment as of June 30, 2008, including the entire amount of the goodwill recorded in connection with the Calence acquisition, including the earnout through June 30, 2008. The charge is included in earnings (loss) from continuing operations for the nine months ended September 30, 2008. This non-cash charge will not affect our debt covenant compliance, cash flows or ongoing results of operations. The goodwill balance in our North America operating segment as of September 30, 2008 represents the earnout accrual for Calence during the third quarter of 2008.

During the three months ended September 30, 2008, our overall market capitalization increased with increases in the market price of Insight's publicly traded common stock. Subsequent to the announcement of our results of operations for the second quarter of 2008 on August 11, 2008, the Company experienced a relatively consistent increase in market capitalization. During the third quarter of 2008, the market price of Insight's publicly traded common stock ranged from a low of \$10.70 to a high of \$17.11, ending the quarter at \$13.41 on September 30, 2008. Based on the increase in the market price of our common stock during the third quarter of 2008 as well as the decline in the carrying value due to the write-off of goodwill during the second quarter of 2008, we concluded that a triggering event had not occurred subsequent to June 30, 2008, which would more likely than not reduce the fair value of one or more of our reporting units below its respective carrying value. We will perform our annual review of goodwill in the fourth quarter.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 are as follows (in thousands):

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Balance at December 31, 2007	\$ 219,909	\$ 68,725	\$ 18,108	\$ 306,742
Goodwill recorded in connection with the acquisition of Calence	96,180			96,180
Goodwill recorded in connection with the acquisition of MINX		3,500		3,500
Impairment charge	(313,949)			(313,949)
Other adjustments	(385)	(4,142)	(1,186)	(5,713)
Balance at September 30, 2008	\$ 1,755	\$ 68,083	\$ 16,922	\$ 86,760

The other adjustments to goodwill primarily consist of foreign currency translation adjustments. During the nine months ended September 30, 2008, the adjustments in EMEA also include the reversal of a valuation allowance of \$2,079,000 against our United Kingdom net operating loss carryforward deferred tax asset (see Note 5).

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

*Intangible Assets*

Our intangible assets of \$100,123,000 at September 30, 2008 consist principally of customer relationships acquired in the September 2006 acquisition of Software Spectrum and identifiable intangible assets acquired in the acquisitions of Calence and MINX of \$29,190,000 and \$2,874,000, respectively (see Note 13). All of our intangible assets are subject to amortization. In connection with completing our goodwill impairment analysis in the second quarter of 2008, we considered the potential impairment of our other intangibles assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as applicable. In accordance with SFAS No. 144, we determined that the carrying amount of our intangible assets was recoverable as the carrying amount of the assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. Accordingly, we concluded that no impairment was indicated.

*Other Assets*

In connection with completing our goodwill impairment analysis in the second quarter of 2008, we also assessed the current fair values of our other significant assets, primarily property and equipment, including capitalized costs of software developed for internal use, IT equipment and software licenses. In accordance with SFAS No. 144, we determined that the carrying amount of our other long-lived assets was recoverable as the carrying amount of the assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. Accordingly, we concluded that no impairment was indicated.

**4. Debt and Inventory Financing Facility***Debt*

Our long-term debt consists of the following (in thousands):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Senior revolving credit facility	\$ 162,653	\$
Term loan		56,250
Accounts receivable securitization financing facility	168,374	146,000
Total	331,027	202,250
Less: current portion	(168,374)	(15,000)
Long-term debt	\$ 162,653	\$ 187,250

On April 1, 2008, we entered into a new five-year \$300,000,000 senior revolving credit facility, which replaced our existing revolving credit facility and our term loan facility. The Calence acquisition was funded, in part, using borrowings under the new facility. Amounts outstanding under the new senior revolving credit facility bear interest, payable quarterly, at a floating rate equal to the prime rate or, at our option, a LIBOR rate plus a pre-determined spread of 0.75% to 1.75%. The weighted average interest rate on amounts outstanding under our senior revolving credit facility was 4.02% during the three months ended September 30, 2008. In addition, we pay a commitment fee on the unused portion of the facility of 0.175% to 0.35%. As of September 30, 2008, \$137,087,000 was available under the senior revolving credit facility. The senior revolving credit facility matures on April 1, 2013.

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In connection with the new inventory financing facility discussed below, on September 17, 2008, we amended certain provisions in the senior revolving credit facility to, among other provisions, permit up to \$100,000,000 in outstanding indebtedness under the new inventory financing facility and the liens securing such indebtedness.

Also on September 17, 2008, we amended certain provisions of our accounts receivable securitization facility, which was to have expired on September 7, 2009, including, among other provisions, (i) a reduction in the facility amount effective December 17, 2008 from \$225,000,000 to \$150,000,000, (ii) an increase in the permissible delinquency ratio, and (iii) the creation of a new one-year term through September 17, 2009. The weighted average interest rate on amounts outstanding under our accounts receivable securitization facility during the three months ended September 30, 2008 was 3.51%, and no amounts are available at September 30, 2008. Amounts outstanding under the accounts receivable securitization facility at September 30, 2008 are reflected as the current portion of long-term debt in the accompanying Consolidated Balance Sheet.

Our financing facilities contain various covenants. If we fail to comply with these covenants, the lenders would be able to demand payment within a specified period of time. At September 30, 2008, we were in compliance with all such covenants.

*Inventory Financing Facility*

On September 17, 2008, we entered into an agreement which provides for a new facility to purchase inventory from a list of approved vendors. The aggregate availability for vendor purchases under the inventory financing facility is \$90,000,000, and the facility matures on April 1, 2013 but may be cancelled with 90 days notice. Additionally, the facility may be renewed under certain circumstances described in the agreement for successive twelve month periods. Interest does not accrue on accounts payable under this facility provided the accounts payable are paid within stated vendor terms (ranging from 30 to 60 days). If balances are not paid within stated vendor terms, they will accrue interest at prime plus 1.25%. The facility is guaranteed by the Company and each of its material domestic subsidiaries and is secured by a lien on substantially all of the Company's domestic assets that is of equal priority to the liens securing borrowings under our senior revolving credit facility. The facility replaced an existing agreement that the Company assumed in connection with the acquisition of Calence on April 1, 2008. As of September 30, 2008, \$50,228,000 was included in accounts payable related to this facility.

**5. Income Taxes**

Our effective tax rate for the three months ended September 30, 2008 was 22.2% on \$8,625,000 of earnings from continuing operations. Our effective tax rate for the nine months ended September 30, 2008 was 36.3% on a \$246,669,000 loss from continuing operations. The effective tax rate for the three months ended September 30, 2008 differed from the United States federal statutory rate of 35.0% due primarily to the benefit of federal and state research and development credits of \$1.1 million recorded during the quarter when the credits were identified and appropriate returns were filed, state income taxes, net of federal tax, and lower taxes on income earned in foreign jurisdictions. The effective tax rate for the nine months ended September 30, 2008 differed from the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, and lower taxes on income earned in foreign jurisdictions, offset by the non-deductible portion of the goodwill impairment charge during the nine months ended September 30, 2008.

Our effective tax rate from continuing operations for the three and nine months ended September 30, 2007 was 40.6% and 39.1%, respectively. The effective tax rate for both periods was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes, net of federal tax, as well as non-deductible expenses related to executive compensation.

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We believe it is more likely than not that forecasted income, including income that may be generated as a result of prudent and feasible tax planning strategies, together with the tax effects of deferred tax liabilities, will be sufficient to fully recover our deferred tax assets. In the future, if we determine that realization of the deferred tax asset is not more likely than not, we will need to increase our valuation allowance and record additional income tax expense. As a result of income generated through June 30, 2008 and near-term income forecasts, during the second quarter of 2008 we determined that we had sufficient positive evidence to recognize our deferred tax asset related to our United Kingdom net operating loss ( NOL ) carryforward. Therefore, the valuation allowance of \$2,079,000 against our United Kingdom NOL deferred tax asset was released. Since the NOL related to activity prior to the acquisition of Software Spectrum, the reversal was recorded as a reduction of goodwill (see Note 3) and had no effect on income tax expense during the nine months ended September 30, 2008.

We adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FIN 48 ), on January 1, 2007. The adoption of FIN 48 resulted in no cumulative effect adjustment to our retained earnings. As of September 30, 2008 and December 31, 2007, we had approximately \$4,000,000 and \$13,500,000, respectively, of unrecognized tax benefits. Of these amounts, approximately \$500,000 and \$2,600,000, respectively, relate to accrued interest. During the second quarter of 2008, we reversed approximately \$9,700,000 of unrecognized tax benefits upon settlement of an audit. The balance arose from a business combination and upon reversal was recorded as an adjustment to a receivable from the seller with no effect on our effective tax rate.

As of September 30, 2008, if recognized, \$2,900,000 of the liability associated with uncertain tax positions would affect our effective tax rate. The remaining \$1,100,000 balance arose from business combinations that, if recognized during 2008, would be recorded as an adjustment to goodwill or a receivable with no effect on our effective tax rate. Upon our January 1, 2009 adoption of SFAS No. 141R, *Business Combinations* ( SFAS No. 141R ), changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense, including those associated with acquisitions that closed prior to the effective date of SFAS No. 141R.

Several of our subsidiaries are currently under audit for the 2002 through 2007 tax years. It is reasonably possible that the examination phase of these audits may conclude in the next twelve months, and the related unrecognized tax benefits for uncertain tax positions will decrease. However, based on the status of the examinations, an estimate of the range of reasonably possible outcomes cannot be made at this time.

We, including our subsidiaries, file income tax returns in the U.S. federal jurisdiction, and many state and local and non-U.S. jurisdictions. In the U.S., federal income tax returns for 2004 through 2007 remain open to examination. For U.S. state and local as well as non-U.S. jurisdictions, the statute of limitations generally varies between three and ten years.

#### **6. Severance, Restructuring and Acquisition Integration Activities**

##### *Severance Costs Expensed in 2008*

During the nine months ended September 30, 2008, North America, EMEA and APAC recorded severance expense totaling \$2,290,000, \$3,079,000 and \$39,000, respectively, related to on-going restructuring efforts to reduce operating expenses related to support and management functions. The following table details the changes in these liabilities during the nine months ended September 30, 2008 (in thousands):

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Severance costs	\$ 2,290	\$ 3,079	\$ 39	\$ 5,408
Foreign currency translation adjustments		(175)		(175)
Cash payments	(1,996)	(1,131)	(39)	(3,166)

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Balance at September 30, 2008	\$	294	\$	1,773	\$	\$	2,067
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All remaining outstanding obligations are expected to be paid during the year ending December 31, 2008 and are therefore included in accrued expenses and other current liabilities.

*Severance Costs Expensed in 2007*

During the year ended December 31, 2007, North America, EMEA and APAC recorded severance expense of \$2,960,000, \$177,000 and \$64,000, respectively, primarily associated with the retirement of our former chief financial officer. Of the severance amounts expensed in 2007, EMEA paid \$177,000 during 2007.

The following table details the changes in these liabilities during the nine months ended September 30, 2008 (in thousands):

	<b>North America</b>	<b>APAC</b>	<b>Consolidated</b>
Balance at December 31, 2007	\$ 2,960	\$ 64	\$ 3,024
Cash payments	(2,960)	(64)	(3,024)
Balance at September 30, 2008	\$	\$	\$

*Acquisition-Related Costs Capitalized in 2006 as a Cost of Acquisition of Software Spectrum*

In 2006, we recorded \$9,738,000 of employee termination benefits and \$1,676,000 of facility based costs in connection with the integration of Software Spectrum. These costs were accounted for under EITF Issue No. 95-3,

*Recognition of Liabilities in Connection with Purchase Business Combinations*, and were based on the integration plans that were committed to by management. Accordingly, these costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the cost to acquire Software Spectrum.

The employee termination benefits relate to severance payments for Software Spectrum teammates in North America and EMEA who have been terminated in connection with integration plans. The facilities based costs relate to future lease payments or lease termination costs associated with vacating certain Software Spectrum facilities in EMEA.

The following table details the changes in these liabilities during the nine months ended September 30, 2008 (in thousands):

	<b>North America</b>	<b>EMEA</b>	<b>Consolidated</b>
Balance at December 31, 2007	\$ 543	\$ 4,395	\$ 4,938
Foreign currency translation adjustments		(168)	(168)
Cash payments	(202)	(230)	(432)
Balance at September 30, 2008	\$ 341	\$ 3,997	\$ 4,338



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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In the accompanying consolidated balance sheet at September 30, 2008, \$2,038,000 is expected to be paid by September 30, 2009 and is therefore included in accrued expenses and other current liabilities, and \$2,300,000 is expected to be paid after September 30, 2009 and is therefore included in other liabilities (long-term).

*Restructuring Costs Expensed in 2005*

During the year ended December 31, 2005, Insight UK moved into a new facility and recorded facilities-based restructuring costs of \$7,458,000.

The following table details the changes in this liability during the nine months ended September 30, 2008 (in thousands):

	<b>EMEA</b>
Balance at December 31, 2007	\$ 2,425
Adjustments	(81)
Cash payments	(899)
Balance at September 30, 2008	\$ 1,445

The remaining accrual of \$1,445,000 is expected to be paid by September 30, 2009 and is therefore included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet at September 30, 2008.

**7. Stock-Based Compensation**

We recorded the following pre-tax amounts, by operating segment, for stock-based compensation related to stock options and restricted stock, as detailed below, in the accompanying consolidated financial statements (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
North America	\$ 1,576	\$ 2,889	\$ 5,542	\$ 7,754
EMEA	298	612	1,839	1,456
APAC	44	45	175	83
Total Consolidated	\$ 1,918	\$ 3,546	\$ 7,556	\$ 9,293

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*Stock Options*

For the three months ended September 30, 2008 and 2007, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$112,000 and \$1,024,000, respectively. For the nine months ended September 30, 2008 and 2007, we recorded stock-based compensation expense related to stock options, net of an estimate of forfeitures, of \$389,000 and \$3,065,000, respectively. As of September 30, 2008, total compensation cost related to nonvested stock options not yet recognized is \$832,000, which is expected to be recognized over the next 1.21 years on a weighted-average basis. The following table summarizes our stock option activity during the nine months ended September 30, 2008:

	Number	Weighted Average	Aggregate	Weighted Average Remaining
	Outstanding	Exercise Price	Intrinsic Value (in-the-money options)	Contractual Life (in years)
Outstanding at the beginning of period	3,621,130	\$ 19.33		
Granted				
Exercised	(345,565)	14.56	\$ 1,077,542	
Forfeited or expired	(663,387)	19.83		
Outstanding at the end of period	2,612,178	19.46	\$ 1,508	1.38
Exercisable at the end of period	2,390,824	19.61	\$ 1,508	1.14
Vested and expected to vest	2,588,773	19.48	\$ 1,508	1.35

The aggregate intrinsic value at the end of period in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$13.41 as of September 30, 2008, which would have been received by the option holders had all option holders exercised in-the-money options and sold the underlying shares on that date.

The following table summarizes the status of outstanding stock options as of September 30, 2008:

Range of Exercise Prices	Number of Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number of Options Exercisable	Weighted Average Exercise Price Per Share
\$8.89 18.53	750,380	2.14	\$ 17.62	548,880	\$ 17.57
18.54 19.72	672,876	1.25	19.20	653,122	19.21
19.79 20.36	768,810	1.17	20.05	768,810	20.05
20.56 40.29	419,937	0.62	22.11	419,937	22.11
41.00	75	1.74	41.00	75	41.00

2,612,078	1.38	19.46	2,390,824	19.61
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*Restricted Stock*

For the three months ended September 30, 2008 and 2007, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock shares and RSUs of \$1,806,000 and \$2,522,000, respectively. For the nine months ended September 30, 2008 and 2007, we recorded stock-based compensation expense, net of estimated forfeitures, related to restricted stock shares and RSUs of \$7,167,000 and \$6,228,000, respectively. As of September 30, 2008, total compensation cost related to nonvested restricted stock shares and RSUs not yet recognized is \$18,181,000, which is expected to be recognized over the next 1.24 years on a weighted-average basis.

On January 23, 2008, the Compensation Committee of our Board of Directors approved a special long-term incentive award for the Chief Executive Officer, the President of our North America/APAC operating segments and the President of our EMEA operating segment. The approved grant level targets were as follows:

Richard A. Fennessy, President and Chief Executive Officer 300,000 RSUs;

Mark T. McGrath, President, North America/APAC 150,000 RSUs; and

Stuart A. Fenton, President, EMEA 100,000 RSUs.

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The plan provides for the award of RSUs that will be issued based upon achievement of specific stock price hurdles within specific timeframes (the 20-day average closing price of Insight stock must be at or above a stock price hurdle and within the defined timeframes for any tranche to be awarded):

20% awarded if stock price hurdle of \$25.00 is achieved by February 15, 2009;

30% awarded if stock price hurdle of \$30.00 is achieved between February 16, 2009 and February 15, 2010;  
and

50% awarded if stock price hurdle of \$35.00 is achieved between February 16, 2010 and February 15, 2011.

If all or some hurdles are not achieved, 33% of the remaining award (i.e., any shares not issued for achievement of the stock price hurdles set forth above) will be made on February 15, 2013, assuming continued employment. Vesting of the RSUs awarded will occur 50% at the time of the award and 50% on the first anniversary of the award date. If a change in control as defined in the 2007 Omnibus Plan occurs, all units that have been issued by achievement of stock price hurdles will automatically vest, and units that have not been issued will be forfeited. For the three and nine months ended September 30, 2008, we recorded stock-based compensation expense related to these RSUs of \$257,000 and \$704,000, respectively, which is included in the stock-based compensation expense amounts discussed above. As of September 30, 2008, total compensation cost not yet recognized related to these RSUs was \$5,735,000 of the \$18,181,000 total discussed above. Such compensation expense is expected to be recognized through February 2014. The following table summarizes our restricted stock activity, including restricted stock shares and RSUs, during the nine months ended September 30, 2008:

	Number	Weighted Average Grant Date Fair Value	Fair Value
Nonvested at the beginning of period	1,108,857	\$ 20.29	
Granted	767,450	12.63	
Vested, including shares withheld to cover taxes	(428,389)	20.36	\$ 7,627,814 <sup>(a)</sup>
Forfeited	(141,748)	19.57	
Nonvested at the end of period	1,306,170	15.85	\$ 17,515,740 <sup>(b)</sup>
Expected to vest	1,238,712		\$ 16,611,128 <sup>(b)</sup>

<sup>(a)</sup> The fair value of vested restricted stock shares and RSUs represents the total pre-tax fair value, based on the closing stock price on the day of vesting, which would have been received

by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

- (b) The aggregate fair value of the nonvested restricted stock shares and the RSUs expected to vest represents the total pre-tax fair value, based on our closing stock price of \$13.41 as of September 30, 2008, which would have been received by holders of restricted stock shares and RSUs had all such holders sold their underlying shares on that date.

During the nine months ended September 30, 2008, the restricted stock shares and RSUs that vested for teammates in the United States were net-share settled such that we withheld shares with value equivalent to the teammates minimum statutory United States tax obligation for the applicable income and other employment taxes and remitted the cash to the appropriate taxing authorities. The total shares withheld during the nine months ended September 30, 2008 of 117,193 was based on the value of the restricted stock shares or RSUs on their vesting date as determined by our closing stock price on such date. For the nine months ended September 30, 2008, total payments for the employees tax obligations to the taxing authorities were \$2,097,000 and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of repurchases of common stock as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to us.

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**8. Fair Value Measurements**

In September 2006, FASB issued SFAS No. 157, which provides guidance for determining fair value to measure assets and liabilities. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. On February 12, 2008, the FASB issued FASB Staff Position ( FSP ) FAS 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of the FSP. As such, we did not apply the fair value measurement requirements of SFAS No. 157 for nonfinancial assets and liabilities when performing our goodwill and other asset impairment tests as discussed in Note 3.

Our partial adoption of SFAS No. 157 on January 1, 2008, for financial assets and liabilities and for nonfinancial assets or liabilities that are measured on a recurring basis, did not have any effect on our consolidated financial statements. As of September 30, 2008, we have no nonfinancial assets or liabilities that are measured on a recurring basis and our financial assets or liabilities generally consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities. The estimated fair values of our cash and cash equivalents is determined based on quoted prices in active markets for identical assets. The fair value of the other financial assets and liabilities is based on the value that would be received or paid in an orderly transaction between market participants and approximates the carrying value due to their nature and short duration.

**9. Comprehensive (Loss) Income**

Comprehensive (loss) income for the three and nine months ended September 30, 2008 and 2007 includes the following component (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net earnings (loss)	\$ 6,713	\$ 9,096	\$ (157,044)	\$ 53,173
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(22,649)	9,659	(14,739)	16,027
Total comprehensive (loss) income	\$ (15,936)	\$ 18,755	\$ (171,783)	\$ 69,200

**10. Share Repurchase Program**

On November 14, 2007, we announced that our Board of Directors had authorized the purchase of up to \$50,000,000 of our common stock through September 30, 2008. During the nine months ended September 30, 2008, we purchased in open market transactions 3,493,500 shares of our common stock at a total cost of approximately \$50,000,000 (an average price of \$14.31 per share), which completed the program. All shares repurchased were retired as of June 30, 2008.

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**11. Commitments and Contingencies**

*Contractual*

In July 2007, we signed a statement of work with a third party that was engaged to assist us in a company-wide integration of our hardware, services and software distribution operations into our IT systems. During the quarter ended March 31, 2008, we renegotiated the contract to include a new scope of work, whereby we agreed to engage the third party on current and future IT related projects. As a result of this renegotiation, previously reported commitments as of December 31, 2007 totaling \$14,400,000 over the next two years were settled with a \$3,100,000 payment made in April 2008, which had been fully accrued as of March 31, 2008. The new commitments approximate \$4,000,000 over 18 to 24 months.

In the ordinary course of business, we issue performance bonds to secure our performance under certain contracts or state tax requirements. As of September 30, 2008 and December 31, 2007, we had approximately \$20,184,000 and \$794,000, respectively, of performance bonds outstanding. These bonds are issued on our behalf by a surety company on an unsecured basis; however, if the surety company is ever required to pay out under the bonds, we have contractually agreed to reimburse the surety company.

*Employment Contracts*

We have employment contracts with certain officers and management teammates under which severance payments would become payable and accelerated vesting of stock-based compensation would occur in the event of specified terminations without cause or terminations under certain circumstances after a change in control. If such persons were terminated without cause or under certain circumstances after a change of control, and the severance payments under the current employment agreements were to become payable, the severance payments would generally range from three months of the teammate's salary up to two times the teammate's annual salary and bonus.

*Guaranties*

In the ordinary course of business, we may guarantee the indebtedness of our subsidiaries to vendors and clients. We have not recorded specific liabilities for these guaranties in the consolidated financial statements because we have recorded the underlying liabilities associated with the guaranties. In the event we are required to perform under the related contracts, we believe the cost of such performance would not have a material adverse effect on our consolidated financial position or results of operations.

*Indemnifications*

From time to time, in the ordinary course of business, we enter into contractual arrangements under which we agree to indemnify either our clients or third-party service providers from certain losses incurred relating to services performed on our behalf or for losses arising from defined events, which may include litigation or claims relating to past performance. These arrangements include, but are not limited to, the indemnification of our landlords for certain claims arising from our use of leased facilities and the indemnification of the lenders that provide our credit facilities for certain claims arising from their extension of credit to us. Such indemnification obligations may not be subject to maximum loss clauses.

In connection with our sale of Direct Alliance in June 2006 and PC Wholesale in March 2007, the sale agreements contain certain indemnification provisions pursuant to which we are required to indemnify the respective buyer for a limited period of time for liabilities, losses or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the respective business prior to and at the time of sale.

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Management believes that payments, if any, related to these indemnifications are not probable at September 30, 2008 and, if incurred, would not be material. Accordingly, we have not accrued any liabilities related to such indemnifications in our consolidated financial statements.

*Legal Proceedings*

We are party to various legal proceedings arising in the ordinary course of business, including preference payment claims asserted in client bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations.

In accordance with SFAS No. 5, *Accounting for Contingencies* ( SFAS No. 5 ), we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. Although litigation is inherently unpredictable, we believe that we have adequate provisions for probable and estimable losses. It is possible, nevertheless, that the results of our operations, our financial position or our cash flows could be materially and adversely affected in any particular period by the resolution of a legal proceeding. Legal expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

In October 2006, we received a letter of informal inquiry from the SEC requesting certain documents relating to our historical stock option grants and practices. On August 12, 2008, the staff of the SEC notified the Company that the SEC's investigation into the Company's stock option grant practices has been completed and that the staff does not intend to recommend any enforcement action by the SEC against the Company.

Software Spectrum, Inc., as successor to CS&T, is party to litigation brought in the Belgian courts regarding a dispute over the terms of a tender awarded by the Belgian Ministry of Defence ( MOD ) in November 2000. In February 2001, CS&T brought a breach of contract suit against MOD in the Court of First Instance in Brussels and claimed breach of contract damages in the amount of approximately \$150,000. MOD counterclaimed against CS&T in the amount of approximately \$2,700,000, and CS&T added two European subsidiaries of Microsoft as defendants. We have filed a defense to the counterclaim. The proceedings are currently stayed, and we are in negotiations to settle the dispute with all parties.

On March 10, 2008, TeleTech Holdings, Inc. ( Teletech ) sent us a demand for arbitration pursuant to the Stock Purchase Agreement ( SPA ) entered into between the parties, whereby TeleTech acquired Direct Alliance Corporation ( DAC ), a former subsidiary of Insight, effective June 30, 2006. TeleTech claims that it is entitled to a \$5,000,000 clawback under the SPA relating to the non-renewal of an agreement between DAC and one of its clients. We dispute Teletech's allegations and intend to vigorously defend this matter. In recording the disposition of DAC on June 30, 2006, we deferred \$5,000,000 as a contingent gain on sale related to this clawback.

On April 1, 2008, we completed the acquisition of Calence pursuant to an agreement and plan of merger (the Merger Agreement ), a related support agreement (the Support Agreement ) and other ancillary agreements. In April 2008, in connection with an investigation being conducted by the United States Department of Justice (the DOJ ), Calence received a subpoena from the Office of the Inspector General of the Federal Communications Commission (the FCC ) requesting documents related to the award, by the Universal Service Administration Company ( USAC ), of funds under the E-Rate program to a participating school district. The E-Rate program provides schools and libraries with discounts to obtain affordable telecommunications and internet access. No allegations have been made against Calence, and we are cooperating with the FCC, USAC and the DOJ and are in the process of responding to the subpoena. Pursuant to the Merger Agreement and the Support Agreement, the former owners of Calence have agreed to indemnify us for certain losses and damages that may arise out of or result from this matter, including our fees and expenses for responding to the subpoena.

Management believes that the ultimate outcome of these legal proceedings will not have a material effect on our results of operations.





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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

*Contingencies Related to Third-Party Review*

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, client and vendor audits. We continually assess whether or not such claims have merit and warrant accrual under the probable and estimable criteria of SFAS No. 5. Where appropriate, we accrue estimates of anticipated liabilities in the consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

**12. Discontinued Operation**

On March 1, 2007, we completed the sale of PC Wholesale, a division of our North America operating segment. The net assets sold generated net cash proceeds of \$27,731,000, after the resolution of post-closing contingencies. For the nine months ended September 30, 2007, the gain on sale of PC Wholesale of \$7,937,000, \$4,801,000 net of taxes, and PC Wholesale's earnings during the period of \$282,000, \$171,000 net of taxes, are classified as net earnings from a discontinued operation. We resolved certain post-closing contingencies and recognized an additional gain on the sale of PC Wholesale of \$350,000, \$264,000 net of taxes, in the fourth quarter of 2007. This resolution required a cash payment of \$900,000 during the first quarter of 2008.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ), we have reported the results of operations of PC Wholesale as a discontinued operation in the consolidated statements of operations for all periods presented. We did not allocate interest or general corporate overhead expense to the discontinued operation.

**13. Acquisitions**

*MINX Limited*

On July 10, 2008, we acquired MINX, a United Kingdom-based networking services company with annual net sales of approximately \$25,000,000 for an initial cash purchase price of approximately \$1,500,000 and the assumption of approximately \$3,900,000 of existing debt. Up to an additional \$678,000 may be due if MINX achieves certain performance targets over a one-year period. Founded in 2002 and headquartered in Elstree, Hertfordshire, MINX is a European network integrator with Cisco Gold Partner accreditation. We believe this acquisition will significantly enhance our capabilities in the sale, implementation and management of network infrastructure services and solutions in our EMEA operating segment and will compliment our April 1, 2008 acquisition of Calence in our North America operating segment, accelerating Insight's transformation to a broad-based global technology solutions advisor and provider.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

The following table summarizes the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Purchase price paid as:		
Cash	\$	1,497
Assumed debt		3,895
Acquisition costs		116
Total purchase price		5,508
Fair value of net assets acquired:		
Current assets	\$	7,740
Identifiable intangible assets see description below		2,874
Property and equipment		357
Current liabilities		(8,158)
Other liabilities		(805)
Total fair value of net assets acquired		2,008
Excess purchase price over fair value of net assets acquired ( goodwill )		\$ 3,500

Under the purchase method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired was recorded as goodwill. The purchase price was allocated using the information currently available, and we may adjust the purchase price allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, restructuring activities and revisions of preliminary estimates. We may accrue additional charges in connection with the acquisition of MINX, but the amounts cannot be reasonably estimated at present.

The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Property and equipment were also estimated based upon unamortized costs as they most closely approximated fair value.

Identified intangible assets acquired in the acquisition of MINX totaled approximately \$2,874,000 and consist primarily of customer relationships which are being amortized using the straight-line method over their estimated economic life of 8.5 years. Amortization expense recognized for the period from the acquisition date through September 30, 2008 was \$123,000. Amortization expense is estimated to be approximately \$500,000 per year through 2010.

Goodwill of \$3,500,000 represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from MINX. We have consolidated the results of operations for MINX since its acquisition on July 10, 2008. Our historical results would not have been materially affected by the acquisition of MINX and, accordingly, we have not presented pro forma information as if the acquisition had been completed at the beginning of each period presented in our statements of operations.

*Calence, LLC*

On April 1, 2008, we completed our acquisition of Calence for a cash purchase price of \$125,000,000 plus a preliminary working capital adjustment of \$4,032,000, offset by a final post-closing working capital adjustment of \$383,000. Up to an additional \$35,000,000 of purchase price consideration may be due if Calence achieves certain performance targets over the next four years. Founded in 1993 and headquartered in Tempe, Arizona, Calence is a leading provider of Cisco networking solutions in the United States, with strong regional presence in the Southwest,

Northwest and Midwest, as well as New York, North Carolina and Texas. We believe this acquisition significantly enhances Insight's technical capabilities around networking and communications, as well as managed services and security, accelerating Insight's transformation to a broad-based technology solutions advisor and provider.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

The following table summarizes the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Purchase price paid as:		
Cash and borrowings on senior revolving credit facility	\$	128,649
Assumed debt		7,311
Acquisition costs		3,679
Total purchase price		139,639
Fair value of net assets acquired:		
Current assets	\$	64,815
Identifiable intangible assets see description below		29,190
Property and equipment		6,192
Other assets		946
Current liabilities		(54,499)
Other liabilities		(714)
Total fair value of net assets acquired		45,930
Excess purchase price over fair value of net assets acquired ( goodwill )	\$	93,709

Under the purchase method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired was recorded as goodwill. The purchase price was allocated using the information currently available, and we may adjust the purchase price allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, restructuring activities and revisions of preliminary estimates. We may accrue additional charges in connection with the acquisition of Calence, but the amounts cannot be reasonably estimated at present. During the three and nine months ended September 30, 2008, we accrued an additional \$1,755,000 and \$2,471,000, respectively, of purchase price consideration as a result of Calence achieving certain performance targets during the respective periods. Such amounts were recorded as additional goodwill (see Note 3).

The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Property and equipment were also estimated based upon unamortized costs as they most closely approximated fair value. The estimated value of deferred revenue, of which \$3,359,000 is included in current liabilities and \$652,000 is included in other liabilities in the table above, was based upon the guidance in EITF 01-03, "Accounting in a Business Combination for Deferred Revenue of an Acquiree," and was calculated as the estimated cost to fulfill the contractual obligations acquired under various customer contracts plus a fair value profit margin. Identified intangible assets acquired in the acquisition of Calence totaled \$29,190,000 and consist of the following (in thousands):

Customer relationships	\$	21,800
Backlog Managed services		4,500
Backlog Consulting		2,600
Trade name		150
Non-compete agreements		140

Accumulated amortization	29,190 (3,173)
Intangible assets, net at September 30, 2008	\$ 26,017

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

Amortization is provided using the straight-line method over the following estimated economic lives of the intangible assets:

	<b>Estimated Economic Life</b>
Customer relationships	10.75 Years
Backlog Managed services	4.75 Years
Backlog Consulting	10 Months
Trade name	10 Months
Non-compete agreements	2 Years

Amortization expense recognized for the period from the acquisition date through September 30, 2008 was \$3,173,000. Amortization expense is estimated to be as follows (in thousands):

<b>Years Ending December 31,</b>	
2008	\$ 4,759
2009	3,320
2010	2,993
2011	2,975
2012	2,975
2013	2,028
Thereafter	10,140
<b>Total estimated amortization expense</b>	<b>\$ 29,190</b>

Goodwill of \$93,709,000 represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from Calence. During the three and nine months ended September 30, 2008, we accrued an additional \$1,755,000 and \$2,471,000, respectively, of purchase price consideration as a result of Calence achieving certain performance targets during the respective periods. Such amounts were recorded as additional goodwill. As discussed in Note 3, we recorded a non-cash goodwill impairment charge during the second quarter of 2008 which represented the entire goodwill balance recorded in our North America operating segment, including the entire amount of the goodwill recorded in connection with the Calence acquisition as of June 30, 2008.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

We have consolidated the results of operations for Calence since its acquisition on April 1, 2008. The following table reports pro forma information as if the acquisition of Calence had been completed at the beginning of each period presented (in thousands, except per share amounts):

		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30,</b>		<b>September 30,</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	As reported	\$ 1,168,916	\$ 1,109,705	\$ 3,674,427	\$ 3,517,129
	Pro forma	\$ 1,168,916	\$ 1,186,322	\$ 3,746,452	\$ 3,758,854
Net earnings (loss) from continuing operations	As reported	\$ 6,713	\$ 9,096	\$ (157,044)	\$ 48,201
	Pro forma	\$ 6,713	\$ 8,922	\$ (156,837)	\$ 44,664
Net earnings (loss)	As reported	\$ 6,713	\$ 9,096	\$ (157,044)	\$ 53,173
	Pro forma	\$ 6,713	\$ 8,922	\$ (156,837)	\$ 49,636
Diluted net earnings (loss) per share	As reported	\$ 0.15	\$ 0.18	\$ (3.35)	\$ 1.07
	Pro forma	\$ 0.15	\$ 0.18	\$ (3.34)	\$ 1.00

**14. Segment Information**

We operate in three reportable geographic operating segments: North America; EMEA; and APAC. Currently, our offerings in North America and the United Kingdom include brand-name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information* ( SFAS No. 131 ), requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major clients. The method for determining what information to report under SFAS No. 131 is based upon the management approach, or the way that management organizes the operating segments within a company, for which separate financial information is evaluated regularly by the Chief Operating Decision Maker ( CODM ) in deciding how to allocate resources. Our CODM is our Chief Executive Officer.

All intercompany transactions are eliminated upon consolidation, and there are no differences between the accounting policies used to measure profit and loss for our segments and on a consolidated basis. Net sales are defined as net sales to external clients.

A portion of our operating segments' selling and administrative expenses arise from shared services and infrastructure that we have historically provided to them in order to realize economies of scale and to use resources efficiently. These expenses, collectively identified as corporate charges, include senior management expenses, internal audit, legal, tax, insurance services, treasury and other corporate infrastructure expenses. Charges are allocated to our operating segments, and the allocations have been determined on a basis that we considered to be a reasonable reflection of the utilization of the services provided to or benefits received by the operating segments.



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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

The tables below present information about our reportable operating segments as of and for the three and nine months ended September 30, 2008 and 2007 (in thousands):

**Three Months Ended September 30, 2008**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 854,729	\$ 281,366	\$ 32,821	\$ 1,168,916
Costs of goods sold	747,530	239,471	27,843	1,014,844
Gross profit	107,199	41,895	4,978	154,072
Selling and administrative expenses	98,427	36,441	4,330	139,198
Earnings from operations	\$ 8,772	\$ 5,454	\$ 648	14,874
Non-operating expense, net				6,249
Earnings from continuing operations before income taxes				8,625
Income tax expense				1,912
Net earnings from continuing operations				6,713
Net earnings from a discontinued operation				
Net earnings				\$ 6,713
Total assets at period end	\$ 1,363,670	\$ 438,463	\$ 57,099	\$ 1,605,593*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$253,639.

**Three Months Ended September 30, 2007**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 817,747	\$ 264,679	\$ 27,279	\$ 1,109,705
Costs of goods sold	708,729	228,965	22,165	959,859
Gross profit	109,018	35,714	5,114	149,846

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Selling and administrative expenses	93,742	33,165	3,913	130,820
Earnings from operations	\$ 15,276	\$ 2,549	\$ 1,201	19,026
Non-operating expense, net				3,705
Earnings from continuing operations before income taxes				15,321
Income tax expense				6,225
Net earnings from continuing operations				9,096
Net earnings from a discontinued operation				
Net earnings				\$ 9,096
Total assets at period end	\$ 2,198,755	\$ 393,211	\$ 39,393	\$ 1,590,637*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$1,040,722.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

**Nine Months Ended September 30, 2008**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 2,578,098	\$ 981,859	\$ 114,470	\$ 3,674,427
Costs of goods sold	2,230,942	838,263	96,253	3,165,458
Gross profit	347,156	143,596	18,217	508,969
Selling and administrative expenses	295,978	114,043	14,040	424,061
Goodwill impairment	313,949			313,949
Severance and restructuring expenses	2,290	3,079	39	5,408
(Loss) earnings from operations	\$ (265,061)	\$ 26,474	\$ 4,138	(234,449)
Non-operating expense, net				12,220
Loss from continuing operations before income taxes				(246,669)
Income tax benefit				(89,625)
Net loss from continuing operations				(157,044)
Net earnings from a discontinued operation				
Net loss				\$ (157,044)
Total assets at period end	\$ 1,363,670	\$ 438,463	\$ 57,099	\$ 1,605,593*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$253,639.

**Nine Months Ended September 30, 2007**

	<b>North America</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Net sales	\$ 2,518,847	\$ 923,958	\$ 74,324	\$ 3,517,129
Costs of goods sold	2,163,724	804,733	60,838	3,029,295
Gross profit	355,123	119,225	13,486	487,834

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Selling and administrative expenses	289,605	98,646	10,651	398,902
Severance and restructuring expenses	2,841			2,841
Earnings from operations	\$ 62,677	\$ 20,579	\$ 2,835	86,091
Non-operating expense, net				6,994
Earnings from continuing operations before income taxes				79,097
Income tax expense				30,896
Net earnings from continuing operations				48,201
Net earnings from a discontinued operation				4,972
Net earnings				\$ 53,173
Total assets at period end	\$ 2,198,755	\$ 393,211	\$ 39,393	\$ 1,590,637*

\* Consolidated total assets include corporate assets and intercompany eliminations for a net reduction of \$1,040,722.

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**INSIGHT ENTERPRISES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(unaudited)**

We recorded the following pre-tax amounts, by operating segment, for depreciation and amortization, in the accompanying consolidated financial statements (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
North America	\$ 8,951	\$ 6,537	\$ 24,548	\$ 20,262
EMEA	1,753	1,645	5,198	5,166
APAC	175	137	541	532
Total Consolidated	\$ 10,879	\$ 8,319	\$ 30,287	\$ 25,960

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**INSIGHT ENTERPRISES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q.*

**Quarterly Overview**

**The Company**

We are a leading provider of brand-name information technology ( IT ) hardware, software and services to large enterprises, small- to medium-sized businesses ( SMB ) and public sector institutions in North America, EMEA (Europe, the Middle East and Africa) and APAC (Asia-Pacific). Currently, our offerings in North America and the United Kingdom include brand name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services.

**Acquisition**

On July 10, 2008, we acquired MINX Limited ( MINX ), a United Kingdom-based networking services company with annual net sales of approximately \$25.0 million, for an initial cash purchase price of approximately \$1.5 million and the assumption of approximately \$3.9 million of existing debt. Up to an additional \$678,000 may be due if MINX achieves certain performance targets over a one-year period. Founded in 2002 and headquartered in Elstree, Hertfordshire, MINX is a European network integrator with Cisco Gold Partner accreditation. We believe this acquisition will significantly enhance our capabilities in the sale, implementation and management of network infrastructure services and solutions in our EMEA operating segment and will compliment our April 1, 2008 acquisition of Calence in our North America operating segment.

This acquisition, along with the Calence acquisition in the second quarter, is consistent with our vision and strategy to become a global value added reseller ( G-VAR ) through continued investment in certain key technology categories, including networking and advanced communications.

**Quarterly Results**

On a consolidated basis, net sales for the three months ended September 30, 2008 increased 5% to \$1.17 billion compared to the three months ended September 30, 2007. Gross profit also grew at a rate of 3% to \$154.1 million for the three months ended September 30, 2008. Net earnings from continuing operations for the three months ended September 30, 2008 decreased 26% and diluted earnings per share from continuing operations decreased 17% compared to the three months ended September 30, 2007. The 2008 results include \$3.3 million of net foreign currency losses primarily resulting from the strengthening of the U.S. dollar against the Euro and British Pound Sterling and the volatility of those exchange rates during the quarter. The 2007 results included \$849,000 of net foreign currency losses. The 2008 results also include \$1.1 million of tax benefit related to federal and state research and development credits recorded during the quarter. Results of continuing operations for the three months ended September 30, 2007 include expenses of \$2.5 million for professional fees and costs associated with our stock option review.

Net sales in North America increased 5% to \$854.7 million primarily due to 63% growth in our networking and connectivity sales with the acquisition of Calence on April 1, 2008. This increase more than offset declines in our legacy hardware business such that overall hardware net sales in North America for the three months ended September 30, 2008 increased 1% year over year. Hardware net sales, other than networking and connectivity, declined 12% during the quarter reflecting the continuation of the effects of the difficult market we are faced with in 2008. Software net sales for the three months ended September 30, 2008 increased 2% compared to the three months ended September 30, 2007, and we continue to attribute this growth in software net sales to the sales and marketing initiatives we implemented early in the second quarter of 2008. Net

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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

sales from services, which also benefited from the acquisition of Calence, increased 126% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, which includes 16% growth in the legacy services business in North America. Gross margin in North America decreased by 80 basis points from the third quarter of 2007 primarily due to market pricing pressures and general economic conditions, which have driven decreases in product margin, which includes vendor funding, decreases in agency fees for Microsoft enterprise software agreement renewals and decreases in freight margin. Including Calence, North America kept selling and administrative expenses as a percentage of net sales flat at 11.5% and reported earnings from operations of \$8.8 million during the third quarter of 2008 compared to \$15.3 million for the third quarter of 2007. However, the third quarter 2007 results include \$2.5 million in professional fees and costs associated with our stock option review. Net sales in EMEA increased 6% to \$281.4 million, in part reflecting a 13% increase in software sales during the three months ended September 30, 2008 compared the three months ended September 30, 2007. Gross margin in EMEA increased 140 basis points from the three months ended September 30, 2007 as a result of strong software and services category performance and a continued migration to fee based software programs. Earnings from operations in the EMEA segment increased 114% compared to the third quarter of 2007 to \$5.5 million reflecting higher gross profit partially offset by increases in selling and administrative expenses from increased labor costs.

Net sales in APAC increased 20% to \$32.8 million with gross margin on these sales of 15.2%, a decline from 18.7% during the three months ended September 30, 2007. Earnings from operations from this segment were \$648,000 during the three months ended September 30, 2008, a decrease from \$1.2 million during the three months ended September 30, 2007 due primarily to the decrease in gross margin year over year resulting from a decrease in Microsoft enterprise agreement renewals.

Reconciliations of segment results of operations to consolidated results of operations can be found in Note 14 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Our discussion and analysis of financial condition and results of operations is intended to assist in the understanding of our consolidated financial statements, the changes in certain key items in those consolidated financial statements from period to period and the primary factors that contributed to those changes, as well as how certain critical accounting estimates affect our Consolidated Financial Statements.

**Guidance**

We expect the demand environment to continue to be soft in the fourth quarter. As a result, we expect fourth quarter 2008 diluted earnings per share to be between \$0.27 and \$0.34. This estimate includes no severance, restructuring or other one-time charges. The reason for such a wide range is that, worldwide, the current environment is quite unprecedented, making forecasting more difficult. As such, this guidance reflects management's expectations for the balance of 2008, but the factors that could affect performance are numerous.

**Critical Accounting Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). For a summary of significant accounting policies, see Note 1 to the Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results, however, may differ from estimates we have made. Members of our senior management have discussed the critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors. See discussion about critical accounting estimates relating to goodwill in Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report.





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**INSIGHT ENTERPRISES, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (continued)**

There have been no changes to the items disclosed as critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2007.

**RESULTS OF OPERATIONS**

The following table sets forth for the periods presented certain financial data as a percentage of net sales for the three and nine months ended September 30, 2008 and 2007. As discussed in Note 12 to the Consolidated Financial Statements in Part I, Item 1 of this report, we have reported the results of operations of PC Wholesale, which we sold on March 1, 2007, along with the gain on sale of PC Wholesale, as a discontinued operation in the Consolidated Statements of Operations for the nine months ended September 30, 2007:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	100.0%	100.0%	100.0%	100.0%
Costs of goods sold	86.8	86.5	86.2	86.1
Gross profit	13.2	13.5	13.8	13.9
Selling and administrative expenses	11.9	11.8	11.5	11.3
Goodwill impairment			8.6	
Severance and restructuring expenses			0.1	0.1
Earnings (loss) from operations	1.3	1.7	(6.4)	2.5
Non-operating expense, net	0.6	0.3	0.3	0.2
Earnings (loss) from continuing operations before income taxes	0.7	1.4	(6.7)	2.3
Income tax expense (benefit)	0.1	0.6	(2.4)	0.9
Net earnings (loss) from continuing operations	0.6	0.8	(4.3)	1.4
Net earnings from a discontinued operation				0.1
Net earnings (loss)	0.6%	0.8%	(4.3%)	1.5%

**Net Sales.** Net sales for the three months ended September 30, 2008 increased 5% compared to the three months ended September 30, 2007. Net sales for the nine months ended September 30, 2008 increased 4% compared to the nine months ended September 30, 2007. Our net sales by operating segment were as follows (dollars in thousands):

	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>September 30,</b>		<b>% Change</b>	<b>September 30,</b>		<b>% Change</b>
	<b>2008</b>	<b>2007</b>		<b>2008</b>	<b>2007</b>	
North America	\$ 854,729	\$ 817,747	5%	\$ 2,578,098	\$ 2,518,847	2%
EMEA	281,366	264,679	6%	981,859	923,958	6%
APAC	32,821	27,279	20%	114,470	74,324	54%
Consolidated	\$ 1,168,916	\$ 1,109,705	5%	\$ 3,674,427	\$ 3,517,129	4%



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**INSIGHT ENTERPRISES, INC.**  
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Net sales in North America increased \$37.0 million or 5% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, primarily due to 63% growth in our networking and connectivity sales with the acquisition of Calence on April 1, 2008. This increase more than offset declines in our legacy hardware business such that overall hardware net sales in North America for the three months ended September 30, 2008 increased 1% year over year. Hardware net sales, other than networking and connectivity, declined 12% during the quarter reflecting the continuation of the effects of the difficult market we are faced with in 2008. Software net sales for the three months ended September 30, 2008 increased 2% compared to the three months ended September 30, 2007, and we continue to attribute the growth in software net sales to the sales and marketing initiatives we implemented early in the second quarter of 2008. Net sales from services, which also benefited from the acquisition of Calence, increased 126% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, which includes 16% growth in the legacy services business in North America.

Net sales in North America increased \$59.3 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to the acquisition of Calence. North America had 1,439 account executives at September 30, 2008, an increase from 1,362 at September 30, 2007. However, net sales per average number of account executives in North America decreased to \$590,700 for the three months ended September 30, 2008 from \$606,200 for the three months ended September 30, 2007.

Net sales in EMEA increased \$16.7 million or 6% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase resulted from increased software net sales, which increased 13% year over year and increased services net sales, which increased 57% year over year. Although hardware net sales decreased 1% year over year, hardware net sales increased 6% in local currency. Excluding the negative effects of foreign currency translation during the quarter, net sales in EMEA would have increased by 7% year over year.

Net sales in EMEA increased \$57.9 million or 6% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The positive year to date results also came from increases in software and services, which grew 11% and 29% respectively, year over year, offset partially by the less than 1% decline in hardware sales. The results were also affected significantly by the foreign currency benefit of the weak U.S. dollar. Excluding the positive effects of foreign currency translation during the nine months ended September 30, 2008, net sales in EMEA would have increased by 1% year over year. It should be noted that EMEA had one more shipping day in both the three months and nine months ended September 30, 2008 compared to the three months and nine months ended September 30, 2007. EMEA had 665 account executives at September 30, 2008, an increase from 563 at September 30, 2007, in part as a result of the acquisition of MINX. Net sales per average number of account executives in EMEA decreased to \$429,200 for the three months ended September 30, 2008 compared to \$478,200 for the three months ended September 30, 2007.

Our APAC segment recognized net sales of \$32.8 million and \$114.5 million for the three and nine months ended September 30, 2008, respectively, an increase of 20% and 54%, respectively, year over year as the segment has benefited from the hiring of incremental experienced software sales and support teammates earlier in the year.

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Percentage of net sales by category for North America, EMEA and APAC were as follows for the three months ended September 30, 2008 and 2007:

<b>Sales Mix</b>	<b>North America</b>		<b>EMEA</b>		<b>APAC</b>	
	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Networking and connectivity	18%	12%	6%	5%		
Notebooks and PDAs	9%	12%	9%	11%		
Servers and storage	9%	11%	7%	7%		
Desktops	7%	6%	6%	5%		
Printers	4%	6%	3%	4%		
Memory and processors	2%	4%	1%	2%		
Supplies and accessories	4%	4%	4%	4%		
Monitors and video	5%	5%	5%	5%		
Miscellaneous	9%	9%	3%	4%		
Hardware	67%	69%	44%	47%		
Software	27%	28%	55%	52%	100%	100%
Services	6%	3%	1%	1%	<1%	<1%
	100%	100%	100%	100%	100%	100%

Percentage of net sales by category for North America, EMEA and APAC were as follows for the nine months ended September 30, 2008 and 2007:

<b>Sales Mix</b>	<b>North America</b>		<b>EMEA</b>		<b>APAC</b>	
	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Networking and connectivity	16%	11%	5%	4%		
Notebooks and PDAs	10%	11%	8%	9%		
Servers and storage	9%	11%	6%	7%		
Desktops	7%	6%	4%	4%		
Printers	4%	5%	3%	3%		
Memory and processors	3%	4%	1%	2%		
Supplies and accessories	3%	5%	4%	4%		
Monitors and video	4%	5%	4%	4%		
Miscellaneous	8%	8%	3%	3%		
Hardware	64%	66%	38%	40%		
Software	31%	31%	61%	59%	100%	100%
Services	5%	3%	1%	1%	<1%	<1%
	100%	100%	100%	100%	100%	100%

Currently, our offerings in North America and the United Kingdom include brand name IT hardware, software and services. Our offerings in the remainder of our EMEA segment and in APAC currently only include software and select software-related services. Beginning in 2008, we have combined servers with storage in reporting our sales mix and are reporting desktops separately to conform with how we internally analyze our results. All prior period information has been reclassified for comparative purposes. The increase in networking and connectivity sales as a percentage of net sales in North America is due to the acquisition of Calence.

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**Gross Profit.** Gross profit grew at a rate of 3% to \$154.1 million for the three months ended September 30, 2008, with a 30 basis point decrease in gross margin. Our gross profit and gross profit as a percentage of net sales by operating segment for the three and nine months ended September 30, 2008 and 2007 were as follows (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008	% of Net Sales	2007	% of Net Sales	2008	% of Net Sales	2007	% of Net Sales
North America	\$ 107,199	12.5%	\$ 109,018	13.3%	\$ 347,156	13.5%	\$ 355,123	14.1%
EMEA	41,895	14.9%	35,714	13.5%	143,596	14.6%	119,225	12.9%
APAC	4,978	15.2%	5,114	18.7%	18,217	15.9%	13,486	18.1%
Consolidated	\$ 154,072	13.2%	\$ 149,846	13.5%	\$ 508,969	13.9%	\$ 487,834	13.9%

North America's gross profit decreased for the three months ended September 30, 2008 by 2% compared to the three months ended September 30, 2007. Gross profit per account executive decreased 8% to \$74,100 for the three months ended September 30, 2008 from \$80,800 for the three months ended September 30, 2007. As a percentage of net sales, gross profit decreased by 80 basis points from the third quarter of 2007 primarily due to market pricing pressures which have driven decreases in product margin, which includes vendor funding, of 94 basis points and decreases in agency fees for Microsoft enterprise software agreement renewals of 44 basis points. Additionally, due to increased transportation costs that were not able to be fully passed on to clients, 31 basis points of the decline is attributable to decreases in margin generated by freight. These decreases were offset partially by an 87 basis point improvement in gross margin resulting from increased sales of higher margin services, primarily from our acquisition of Calence. North America's gross profit decreased for the nine months ended September 30, 2008 by 2% compared to the nine months ended September 30, 2007. As a percentage of net sales, gross profit decreased by 60 basis points from the nine months ended September 30, 2007 due primarily to decreases in product margin, which includes vendor funding, primarily driven by market pricing pressures.

EMEA's gross profit increased for the three months ended September 30, 2008 by 17% compared to the three months ended September 30, 2007. Gross profit per account executive decreased 1% to \$63,900 for the three months ended September 30, 2008 from \$64,500 for the three months ended September 30, 2007. As a percentage of net sales, gross profit increased 140 basis points from the three months ended September 30, 2007 due primarily to increases in product margin, which includes vendor funding, of over 90 basis points as well as an increase in agency fees for Microsoft enterprise agreement renewals of over 50 basis points.

EMEA's gross profit increased for the nine months ended September 30, 2008 by 20% compared to the nine months ended September 30, 2007. As a percentage of net sales, gross profit increased by approximately 170 basis points from the nine months ended September 30, 2007 due primarily to increases in product margin, which includes vendor funding, of over 110 basis points as well as an increase in agency fees for Microsoft enterprise agreement renewals of over 60 basis points. More specifically with regard to vendor funding, we have enjoyed an increase in amounts earned under rebate programs with our hardware distributors as well as some of our non-Microsoft publishers in EMEA. Additionally, we have experienced an increase in vendor funding of the type that is classified as a reduction of costs of goods sold as opposed to a reduction in operating expenses.

APAC's gross profit for the three months ended September 30, 2008 decreased by \$136,000 or 3% compared to the three months ended September 30, 2007. APAC's gross profit increased for the nine months ended September 30, 2008 by \$4.7 million or 35% compared to the nine months ended September 30, 2007.



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*Operating Expenses.*

*Selling and Administrative Expenses.* Selling and administrative expenses increased approximately 6% for both the three months ended September 30, 2008 compared to the three months ended September 30, 2007 and the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. Selling and administrative expenses as a percent of net sales by operating segment for the three and nine months ended September 30, 2008 and 2007 were as follows (dollars in thousands):

	<b>Three Months Ended September 30,</b>				<b>Nine Months Ended September 30,</b>			
	<b>2008</b>	<b>% of Net Sales</b>	<b>2007</b>	<b>% of Net Sales</b>	<b>2008</b>	<b>% of Net Sales</b>	<b>2007</b>	<b>% of Net Sales</b>
North America	\$ 98,427	11.5%	\$ 93,742	11.5%	\$ 295,978	11.5%	\$ 289,605	11.5%
EMEA	36,441	13.0%	33,165	12.5%	114,043	11.6%	98,646	10.7%
APAC	4,330	13.2%	3,913	14.3%	14,040	12.3%	10,651	14.3%
Consolidated	\$ 139,198	11.9%	\$ 130,820	11.8%	\$ 424,061	11.5%	\$ 398,902	11.3%

North America's selling and administrative expenses increased \$4.7 million or 5% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase in selling and administrative expenses is primarily attributable to incremental selling and administrative expenses as a result of the acquisition of Calence of approximately \$13.0 million during the three months ended September 30, 2008. The additional expenses resulting from Calence were partially offset by decreases in selling and administrative expenses in the legacy Insight business as a result of our expense management initiatives, reduced performance-based compensation expense and the effect on the year over year comparison of the professional fees associated with the review of our historical stock option practices of \$2.5 million in the three months ended September 30, 2007.

North America's selling and administrative expenses were \$296.0 million for the nine months ended September 30, 2008, approximately 11.5% of net sales for the period, a level that was consistent with the same period in the prior year. Incremental selling and administrative expenses resulting from Calence since April 1, 2008 of \$26.0 million were partially offset by decreases in selling and administrative expenses in the legacy Insight business as a result of our expense management initiatives as well as reduced performance-based compensation expense due to our financial performance. Additionally, the 2008 period benefited from the fact that there were no professional fees associated with the review of our historical stock option practices, whereas selling and administrative expenses in the nine months ended September 30, 2007 included \$12.5 million of such professional fees.

EMEA's selling and administrative expenses increased \$3.3 million or 10% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase in selling and administrative expenses is primarily attributable to salaries and wages, employee-related expenses and contract labor, which increased \$3.5 million due to increases in sales incentive programs and employee headcount.

EMEA's selling and administrative expenses increased \$15.4 million or 16% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase in selling and administrative expenses is primarily attributable to salaries and wages, employee-related expenses and contract labor, which increased due to increases in sales incentive programs, increases in recruitment costs and employee headcount. The effect of currency exchange rates between the weak U.S. dollar as compared to the various European currencies in which we do business accounted for approximately \$5 million of the net year over year increase.

APAC's selling and administrative expenses increased 11% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 and increased 32% for the nine months ended September 30, 2008



compared to the nine months ended September 30, 2007. These increases were primarily due to the hiring of experienced software sales and support teammates during the first quarter of 2008.

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**Goodwill Impairment.** As discussed in Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report, we recorded a non-cash goodwill impairment charge during the three months ended June 30, 2008 of \$313.9 million, which represented the entire goodwill balance recorded in our North America operating segment as of June 30, 2008.

**Severance and Restructuring Expenses.** During the nine months ended September 30, 2008, North America, EMEA and APAC recorded severance expense of \$2.3 million, \$3.1 million, and \$39,000, respectively, related to on-going restructuring efforts. During the nine months ended September 30, 2007, North America recorded severance expense of \$2.8 million related to the retirement of our former chief financial officer.

**Interest Income.** Interest income for the three and nine months ended September 30, 2008 and 2007 was generated through short-term investments. The increase in interest income year over year is due to improved cash management, partially offset by decreases in interest rates.

**Interest Expense.** Interest expense for the three and nine months ended September 30, 2008 and 2007 primarily relates to borrowings under our financing facilities. The increase in interest expense for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 is primarily a result of the increase in the weighted average borrowings outstanding subsequent to the acquisition of Calence, partially offset by decreases in interest rates. The decrease in interest expense for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is due primarily to decreases in interest rates during the respective periods, offset partially by an increase in the weighted average borrowings outstanding. In conjunction with our refinancing of our existing term loan and revolving credit facility on April 1, 2008 (discussed in Note 4 to the Consolidated Financial Statements in Part I, Item 1 of this report), we recorded a loss on debt extinguishment of \$591,000 in the second quarter of 2008 to write off a portion of our debt issue costs to interest expense.

**Net Foreign Currency Exchange Losses (Gains).** These losses (gains) result from foreign currency transactions, including the period end remeasurement of intercompany balances that are not considered long-term in nature. The changes in these amounts primarily result from software licenses sold in various foreign currencies and procured in U.S. dollars, changes in the intercompany balances of our foreign subsidiaries and the volatility of the related foreign currency exchange rates.

**Other Expense, Net.** Other expense, net, consists primarily of bank fees associated with our financing facilities and cash management and were not considered material during the three or nine months ended September 30, 2008 or 2007.

**Income Tax Expense.** Our effective tax rate from continuing operations for the three months ended September 30, 2008 was 22.2% compared to 40.6% for the three months ended September 30, 2007. The decrease in the effective tax rate from continuing operations was due primarily to the benefit of federal and state research and development credits of \$1.1 million recorded during the three months ended September 30, 2008 as well as an increase in the percentage of taxable income being taxed in countries with lower tax rates than the U.S. Our effective tax rate from continuing operations for the nine months ended September 30, 2008 changed to a benefit of 36.3% from an expense of 39.1% for the nine months ended September 30, 2007. The change was primarily due to the impairment charge related to non-deductible goodwill taken during the nine months ended September 30, 2008.

**Earnings from a Discontinued Operation.** As discussed in Note 12 to the Consolidated Financial Statements in Part I, Item 1 of this report, we have reported the results of operations of PC Wholesale, which we sold on March 1, 2007, along with the gain on sale of PC Wholesale, as a discontinued operation in the Consolidated Statements of Operations for the nine months ended September 30, 2007.

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**Liquidity and Capital Resources**

The following table sets forth certain consolidated cash flow information for the nine months ended September 30, 2008 and 2007 (in thousands):

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
Net cash provided by operating activities	\$ 62,121	\$ 99,029
Net cash (used in) provided by investing activities	(150,522)	1,020
Net cash provided by (used in) financing activities	107,592	(108,655)
Foreign currency exchange effect on cash flow	(3,458)	6,995
Increase (decrease) in cash and cash equivalents	15,733	(1,611)
Cash and cash equivalents at beginning of period	56,718	54,697
Cash and cash equivalents at end of period	\$ 72,451	\$ 53,086

**Cash and Cash Flow**

Our primary uses of cash in the past few years have been to fund acquisitions, working capital requirements and capital expenditures and to repurchase our common stock. Operating activities provided \$62.1 million in cash, a 37% decrease from the nine months ended September 30, 2007. Our operating cash flows enabled us to fund \$50.0 million of repurchases of our common stock during the nine months ended September 30, 2008 and still increase our cash balance by \$15.7 million. Capital expenditures were \$24.0 million for the nine months ended September 30, 2008, a 13% decrease from the nine months ended September 30, 2007, primarily related to expenditures for our IT systems upgrade. We increased our net borrowings by \$128.8 million during the nine months ended September 30, 2008 and used those funds to acquire Calence on April 1, 2008. We also utilized our new inventory financing facility to fund \$18.2 million of net inventory purchases during the nine months ended September 30, 2008. Additionally, the nine months ended September 30, 2008 included a \$3.5 million negative effect of foreign currency exchange rates on cash flow.

We sold PC Wholesale in March 2007 and have presented it as a discontinued operation. Except for net earnings, amounts related to the discontinued operation have not been removed from the cash flow statement for the nine months ended September 30, 2007 because the effect is immaterial. See Note 12 to the Consolidated Financial Statements in Part I, Item 1 of this report for further discussion.

**Net cash provided by operating activities.** Cash flows from operating activities for the nine months ended September 30, 2008 and 2007 resulted primarily from decreases in accounts receivable, net earnings before the non-cash goodwill impairment during the nine months ended September 30, 2008, depreciation, amortization, decreases in other current assets, increases in accrued expenses and other liabilities and non-cash stock-based compensation expense. These increases in operating cash flows were partially offset by decreases in accounts payable, increases in deferred income tax assets associated with the goodwill impairment during the nine months ended September 30, 2008 and decreases in deferred revenue. The decreases in accounts receivable and accounts payable can be primarily attributed to the seasonal decrease in net sales, offset partially by the effect of the Calence acquisition, resulting in lower accounts receivable and accounts payable balances at September 30, 2008 compared to December 31, 2007.



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Our consolidated cash flow operating metrics for the three months ended September 30, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Days sales outstanding in ending accounts receivable ( DSOs <sup>(a)</sup> )	70	68
Inventory turns (excluding inventories not available for sale) <sup>(b)</sup>	43	38
Days purchases outstanding in ending accounts payable ( DPOs <sup>(c)</sup> )	47	46

(a) Calculated as the balance of accounts receivable, net at the end of the period divided by daily net sales. Daily net sales is calculated as net sales for the quarter divided by 92 days.

(b) Calculated as annualized costs of goods sold divided by average inventories. Average inventories is calculated as the sum of the balances of inventories at the beginning of the quarter plus inventories at the end of quarter divided by two.

(c) Calculated as the balances of accounts payable at the end of the period divided

by daily costs of  
goods sold.  
Daily costs of  
goods sold is  
calculated as  
costs of goods  
sold for the  
quarter divided  
by 92 days.

The increase in DSOs from the three months ended September 30, 2007 is due primarily to a higher percentage of accounts receivable in foreign operations with longer net terms. The increase in DPOs from the three months ended September 30, 2007 continues to reflect enhanced management of working capital during the 2008 third quarter. These operating metrics include the effect of the Calence acquisition in higher accounts receivable and accounts payable balances at September 30, 2008 compared to September 30, 2007 as well as higher net sales and costs of goods sold during the three months ended September 30, 2008.

Assuming sales continue to increase in the future, we expect that cash flow from operating activities will be used, at least partially, to fund working capital as we typically pay our partners on average terms that are shorter than the average terms granted to our clients in order to take advantage of supplier discounts.

**Net cash (used in) provided by investing activities.** During the nine months ended September 30, 2008, we used \$132.3 million, net of cash acquired of \$7.6 million, to acquire Calence and used \$957,000, net of cash acquired of \$656,000, to acquire MINX. Capital expenditures of \$24.0 million and \$27.6 million for the nine months ended September 30, 2008 and 2007, respectively, primarily related to investments to upgrade our IT systems, including capitalized costs of software developed for internal use, IT equipment and software licenses. We expect total capital expenditures in 2008 to be between \$30.0 million and \$35.0 million. During the nine months ended September 30, 2007, we received net proceeds of \$28.6 million from the sale of a discontinued operation. During the nine months ended September 30, 2008, we made a payment of \$900,000 to resolve certain post-closing contingencies related to that sale.

**Net cash provided by (used in) financing activities.** During the nine months ended September 30, 2008, net borrowings under our financing facilities totaled \$128.8 million. The increase in our outstanding debt balances primarily related to the acquisition of Calence on April 1, 2008. Funds provided by new borrowings were utilized, in part, to repay \$7.1 million of debt assumed from Calence at closing. Additionally, \$3.9 million in cash was used to repay debt assumed from MINX at closing. During the nine months ended September 30, 2008, we also funded repurchases of 3.5 million shares of our common stock in open market transactions at a total cost of approximately \$50.0 million (an average price of \$14.31 per share). These repurchases completed a program previously approved by our Board of Directors authorizing the purchase of up to \$50.0 million of our common stock through September 30, 2008. All shares repurchased had been retired as of June 30, 2008. During the nine months ended September 30, 2007, cash used in financing activities was primarily for net repayments of outstanding debt of \$87.3 million, a decrease in book overdrafts of \$23.9 million and repurchases of 887,000 shares of our common stock in open market transactions at a total cost of \$22.3 million (an averages price of \$25.18 per share) under a previous share repurchase program that was completed in the fourth quarter of 2007. During the nine months ended September 30, 2007, cash of \$24.3 million was provided by common stock issuances as a result of stock option exercises.

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On April 1, 2008, we entered into a new five-year \$300.0 million senior revolving credit facility, which replaced our existing revolving credit facility and our term loan facility. The Calence acquisition was funded, in part, using borrowings under the new facility. Amounts outstanding under the new senior revolving line of credit bear interest, payable quarterly, at a floating rate equal to the prime rate or, at our option, a LIBOR rate plus a pre-determined spread of 0.75% to 1.75%. In addition, we pay a commitment fee on the unused portion of the line of 0.175% to 0.35%. As of September 30, 2008, \$137.1 million was available under the senior revolving credit facility. The senior revolving credit facility matures on April 1, 2013.

On September 17, 2008, we entered into an agreement which provides for a new facility to purchase inventory from a list of approved vendors. The aggregate availability for vendor purchases under the inventory financing facility is \$90.0 million, and the facility matures on April 1, 2013 but may be cancelled with 90 days notice. Additionally, the facility may be renewed under certain circumstances described in the agreement for successive twelve month periods. Interest does not accrue on accounts payable under this facility provided the accounts payable are paid within stated vendor terms (ranging from 30 to 60 days). If balances are not paid within stated vendor terms, they will accrue interest at prime plus 1.25%. Net borrowings under the facility were \$18.2 million during the nine months ended September 30, 2008. Consistent with the current cash flow presentation, net borrowings of \$16.9 million under a prior inventory financing facility assumed in the acquisition of Calence during the three months ended June 30, 2008 have been presented as cash flows from financing activities in this filing. As of September 30, 2008, \$39.8 million was available for inventory purchases under this facility.

Also, on September 17, 2008, we amended certain provisions of our accounts receivable securitization facility, which was to have expired on September 7, 2009, including, among other provisions, (i) a reduction in the facility amount effective December 17, 2008 from \$225.0 million to \$150.0 million, (ii) an increase in the permissible delinquency ratio, and (iii) the creation of a new one-year term through September 17, 2009. No amounts are available at September 30, 2008.

We anticipate that cash flows from operations, together with the funds available under our financing facilities will be adequate to support our presently anticipated cash and working capital requirements for operations over the next twelve months. Additionally, we expect to use any excess cash primarily to reduce outstanding debt and to fund additional acquisitions and/or repurchases of our common stock. As part of our long-term growth strategy, we intend to consider additional acquisition opportunities from time to time, which may require additional debt or equity financing.

Cash and cash equivalents held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation to the U.S. For foreign entities not treated as branches for U.S. tax purposes, we do not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S. As of September 30, 2008, we had approximately \$66.8 million in cash and cash equivalents resident in our foreign subsidiaries.

**Off Balance Sheet Arrangements**

We have entered into off-balance sheet arrangements, which include guaranties and indemnifications, as defined by the SEC's Final Rule 67, *Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*. These guaranties and indemnifications are discussed in Note 11 to our Consolidated Financial Statements in Part I, Item 1 of this report. We believe that none of our off-balance sheet arrangements has, or is reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**Recently Issued Accounting Pronouncements**

Other than the partial adoption of Statement of Financial Accounting Standard No. 157 *Fair Value Measurements* (SFAS No. 157) effective January 1, 2008, as discussed in Note 8, there have been no material changes or additions to the recently issued accounting pronouncements as previously reported in Note 1 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007 which affect

or may affect our financial statements.



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**AND RESULTS OF OPERATIONS (continued)**

**Contractual Obligations**

At September 30, 2008, our contractual obligations were as follows (in thousands):

	Total	Payments due by period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt (a)	\$ 331,027	\$ 168,374	\$	\$ 162,653	\$
Inventory financing facility (b)	50,228	50,228			
Operating lease obligations (c)	62,499	13,260	19,125	14,043	16,071
Severance and restructuring obligations (d)	7,850	5,550	2,300		
Other contractual obligations (e)	59,779	16,899	20,077	14,758	8,045
<b>Total</b>	<b>\$ 511,383</b>	<b>\$ 254,311</b>	<b>\$ 41,502</b>	<b>\$ 191,454</b>	<b>\$ 24,116</b>

(a) On April 1, 2008, we entered into a new five-year \$300.0 million senior revolving credit facility, which replaced our existing revolving credit facility and our term loan facility. As such, amounts included in our contractual obligations table above have been updated to reflect the \$162.7 million outstanding at September 30, 2008 under our senior revolving credit facility as due in April 2013, the date at which the new facility matures. The current portion of

our long-term debt also includes our accounts receivable securitization facility that expires in September 2009. See further discussion in Note 4 to the Consolidated Financial Statements in Part I, Item 1 of this report.

- (b) On September 17, 2008, we entered into an agreement which provides for a new facility to purchase inventory from a list of approved vendors. See further discussion in Note 4 to the Consolidated Financial Statements in Part I, Item 1 of this report. As of September 30, 2008, \$50.2 million was included in accounts payable related to this facility and has been included in our contractual obligations table above as being due within the 30- to 60-day stated vendor terms.

- (c) As there were no material changes in our operating lease obligations during the nine months ended September 30, 2008, amounts included in the table above reflect our operating lease obligations as of December 31, 2007 as reported in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2007.
- (d) As a result of approved severance and restructuring plans, we expect future cash expenditures related to employee termination benefits and facilities based costs. See further discussion in Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report.
- (e) The table above includes:
- I. Estimated interest payments of \$6.5 million in each of the next four and a half years, based on the current debt balance of \$162.7 million at September 30, 2008 under the senior revolving credit facility, multiplied by the weighted average interest rate for the three months ended September 30, 2008 of 4.02% per annum.

- II. Estimated interest payments of \$5.9 million in the next year, based on the current debt balance of \$168.4 million at September 30, 2008 under the asset backed securitization facility, multiplied by the weighted average interest rate for the three months ended September 30, 2008 of 3.51% per annum.
- III. Amounts totaling \$8.4 million over the next six years to the Valley of the Sun Bowl Foundation for sponsorship of the Insight Bowl and \$8.8 million over the next eight years for advertising and marketing events with the Arizona Cardinals NFL team at the University of Phoenix stadium. See further discussion in Note 15 to the Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

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**INSIGHT ENTERPRISES, INC.**

- IV. During the year ended December 31, 2005, we adopted FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*, which states that companies must recognize a liability for the fair value of a legal obligation to perform asset-retirement activities that are conditional on a future event if the amount can be reasonably estimated. We estimate that we will owe \$3.2 million in future years in connection with these obligations.
- V. In July 2007, we signed a statement of work with a third party that was engaged to assist us in integrating into our IT system our hardware, services and software distribution operations in the U.S., Canada, EMEA and APAC. During the quarter ended March 31, 2008, we renegotiated the contract to include a new scope of work, whereby we agreed to engage the third party on current and future IT related projects. The new commitments approximate \$4.0 million over 18 to 24 months.

The table above excludes \$4.0 million of liabilities under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as we are unable to reasonably estimate the ultimate amount or timing of settlement. See further discussion in Note 5 to the Consolidated Financial Statements in Part I, Item 1 of this report and Note 11 to the Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

Although we set purchase targets with our partners tied to the amount of supplier reimbursements we receive, we have no material contractual purchase obligations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes in our reported market risks, as described in *Quantitative and Qualitative Disclosures About Market Risk* in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 4. Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered in this report, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and determined that as of September 30, 2008 our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting***

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Table of Contents****INSIGHT ENTERPRISES, INC.****Part II OTHER INFORMATION****Item 1. Legal Proceedings.**

We are party to various legal proceedings arising in the ordinary course of business, including preference payment claims asserted in client bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations.

In accordance with SFAS No. 5, *Accounting for Contingencies* ( SFAS No. 5 ), we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

These provisions are reviewed at least quarterly and are adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular claim. Although litigation is inherently unpredictable, we believe that we have adequate provisions for any probable and estimable losses. It is possible, nevertheless, that the results of our operations or cash flows could be materially and adversely affected in any particular period by the resolution of a legal proceeding. Legal expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

In October 2006, we received a letter of informal inquiry from the SEC requesting certain documents relating to our historical stock option grants and practices. On August 12, 2008, the staff of the SEC notified the Company that the SEC's investigation into the Company's stock option grant practices has been completed and that the staff does not intend to recommend any enforcement action by the SEC against the Company.

Software Spectrum, Inc., as successor to CS&T, is party to litigation brought in the Belgian courts regarding a dispute over the terms of a tender awarded by the Belgian Ministry of Defence ( MOD ) in November 2000. In February 2001, CS&T brought a breach of contract suit against MOD in the Court of First Instance in Brussels and claimed breach of contract damages in the amount of approximately \$150,000. MOD counterclaimed against CS&T in the amount of approximately \$2.7 million, and CS&T added two European subsidiaries of Microsoft as defendants. We have filed a defense to the counterclaim. The proceedings are currently stayed, and we are in negotiations to settle the dispute with all parties.

On March 10, 2008, TeleTech Holdings, Inc. ( Teletech ) sent us a demand for arbitration pursuant to the Stock Purchase Agreement ( SPA ) entered into between the parties, whereby TeleTech acquired Direct Alliance Corporation ( DAC ), a former subsidiary of Insight, effective June 30, 2006. TeleTech claims that it is entitled to a \$5.0 million clawback under the SPA relating to the non-renewal of an agreement between DAC and one of its clients. We dispute Teletech's allegations and intend to vigorously defend this matter. In recording the disposition of DAC on June 30, 2006, we deferred the \$5.0 million as a contingent gain on sale related to this clawback.

On April 1, 2008, we completed the acquisition of Calence pursuant to an agreement and plan of merger (the Merger Agreement ), a related support agreement (the Support Agreement ) and other ancillary agreements. In April 2008, in connection with an investigation being conducted by the United States Department of Justice (the DOJ ), Calence received a subpoena from the Office of the Inspector General of the Federal Communications Commission (the FCC ) requesting documents related to the award, by the Universal Service Administration Company ( USAC ), of funds under the E-Rate program to a participating school district. The E-Rate program provides schools and libraries with discounts to obtain affordable telecommunications and internet access. No allegations have been made against Calence, and we are cooperating with the FCC, USAC and the DOJ and are in the process of responding to the subpoena. Pursuant to the Merger Agreement and the Support Agreement, the former owners of Calence have agreed to indemnify us for certain damages that may arise out of or result from this matter, including our fees and expenses for responding to the subpoena. Management believes that the ultimate outcome of these legal proceedings will not have a material effect on our results of operations.

Management believes that the ultimate outcome of these legal proceedings will not have a material effect on our results of operations.



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**INSIGHT ENTERPRISES, INC.**

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, current and potential stockholders should carefully consider the factors discussed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. We believe that as of September 30, 2008, there has been no material change to this information other than the additional risks associated with the current economic environment described below. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or operating results.

General economic conditions, including concerns regarding a global recession and credit constraints, or unfavorable economic conditions in a particular region, business or industry sector, may lead our clients to delay or forgo investments in IT hardware, software and services, either of which could adversely affect our business, financial condition, operating results and cash flow.

A general slowdown or recession in the global economy, or in a particular region, or business or industry sector, or sustained or further tightening of credit markets, could cause our clients to: have difficulty accessing credit sources; delay contractual payments; or delay or forgo decisions to (i) upgrade or add to their existing IT environments, (ii) license new software or (iii) purchase services (particularly with respect to discretionary spending for hardware, software and services). Such events could adversely affect our business, financial condition, operating results and cash flow.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

There were no unregistered sales of equity securities during the three months ended September 30, 2008.

We have never paid a cash dividend on our common stock, and our financing facilities prohibit the payment of cash dividends without the lenders' consent.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.



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**INSIGHT ENTERPRISES, INC.**

**Item 6. Exhibits.**

(a) Exhibits (unless otherwise noted, exhibits are filed herewith).

<b>Exhibit No.</b>	<b>Description</b>
3.1	Composite Certificate of Incorporation of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2005 filed on February 17, 2006, File No. 0-25092).
3.2	Amended and Restated Bylaws of Insight Enterprises, Inc. (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on January 14, 2008, File No. 0-25092).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1 (No. 33-86142) declared effective January 24, 1995).
4.2	Stockholder Rights Agreement and Exhibits A and B (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on March 17, 1999, File No. 0-25092).
10.1	Credit Agreement, dated as of September 17, 2008, among Calence, LLC, Insight Direct USA, Inc., Insight Public Sector, Inc., Castle Pines Capital LLC, as an administrative agent, Wells Fargo Foothill, LLC, as an administrative agent, as syndication agent and as collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 23, 2008, File No. 0-25092).
10.2	Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of September 17, 2008, among Insight Enterprises, Inc., Insight Direct (UK) Ltd., Insight Enterprises B.V., JPMorgan Chase Bank, National Association, as Administrative Agent, and certain lenders identified therein (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 23, 2008, File No. 0-25092).
10.3	Amendment No. 9 to Receivables Purchase Agreement, dated as of September 17, 2008, among Insight Receivables, LLC, Insight Enterprises, Inc., JPMorgan Chase Bank, N. A., as Agent, and JS Siloed Trust (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on September 23, 2008, File No. 0-25092).
10.4	First Amendment to Insight Enterprises, Inc. 2007 Omnibus Plan
10.5	Executive Management Separation Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.



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**INSIGHT ENTERPRISES, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Date: November 6, 2008**

**INSIGHT ENTERPRISES, INC.**

**By: /s/ Richard A. Fennessy**

**Richard A. Fennessy  
President and Chief Executive Officer  
(Duly Authorized Officer)**

**By: /s/ Glynis A. Bryan**

**Glynis A. Bryan  
Chief Financial Officer  
(Principal Financial Officer)**

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**INSIGHT ENTERPRISES, INC.**

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